

**Port Hope-Gore-Rubicon Utility Authority
Port Hope, MI**

**FINANCIAL REPORT
March 31, 2004**

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Port Hope-Gore-Rubicon Utility Authority	County Huron
Audit Date 3/31/04	Opinion Date 8/3/04	Date Accountant Report Submitted to State: 8/3/04	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- | | |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) George A. Zahul CPA			
Street Address 101 North Port Crescent	City Bad Axe	State MI	ZIP 48413
Accountant Signature <i>George A. Zahul</i>		Date 8-3-04	

Port Hope-Gore-Rubicon Utility Authority

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George Zahul, CPA, PC
101 N Port Crescent St
Bad Axe, MI 48413
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Independent Auditor's Report

To the Board
Port Hope-Gore-Rubicon Utility Authority
Port Hope, MI 48468

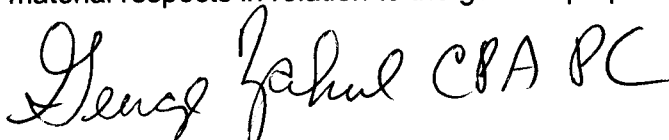
I have audited the accompanying general purpose financial statements of the Port Hope-Gore-Rubicon Utility Authority as of and for the year ended March 31, 2004, as listed in the table of contents. These general purpose financial statements are the responsibility of the management of the Port Hope-Gore-Rubicon Utility Authority. My responsibility is to express an opinion on these general purpose financial statements based on my audit.

I conducted my audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Port Hope-Gore-Rubicon Utility Authority as of March 31, 2004, and the results of its operations and the cash flows of its proprietary fund types for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, I have also issued my report dated August 3, 2004, on my consideration of the Port Hope-Gore-Rubicon Utility Authority's internal control over financial reporting and my test of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of my audit.

My audit was performed for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The supplemental information listed in the table of contents is presented for purpose of additional analysis and is not a required part of the general purpose financial statements of the Port Hope-Gore-Rubicon Utility Authority. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in my opinion, is fairly stated, in all material respects in relation to the general purpose financial statements taken as a whole.

A handwritten signature in cursive script that reads "George Zahul CPA PC".

George Zahul, CPA, PC
August 3, 2004

George Zahul, CPA, PC
101 N Port Crescent St
Bad Axe, MI 48413
989-269-9966

**Report on Compliance and on Internal Control Over Financial
Reporting Based on an Audit of Financial Statements Performed
in Accordance with Government Auditing Standards**

To the Board
Port Hope-Gore-Rubicon Utility Authority
Port Hope, MI 48468

I have audited the general purpose financial statements of the Port Hope-Gore-Rubicon Utility Authority as of and for the year ended March 31, 2004, and have issued my report thereon dated August 3, 2004. I conducted my audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

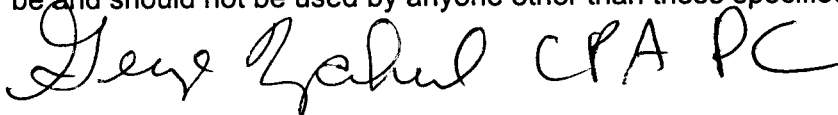
Compliance

As part of obtaining reasonable assurance about whether the Port Hope-Gore-Rubicon Utility Authority's general purpose financial statements are free of material misstatements, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, I noted certain immaterial instances of noncompliance that I have reported to management of Port Hope-Gore-Rubicon Utility Authority, in a separate letter dated August 3, 2004.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the Port Hope-Gore-Rubicon Utility Authority's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over financial reporting and its operation that I consider to be material weaknesses.

This report is intended solely for the information and use of the Village Council, the State of Michigan, and the United States Department of Agriculture Rural Development and is not intended to be and should not be used by anyone other than those specified parties.


George Zahul, CPA, PC
August 3, 2004

Port Hope-Gore-Rubicon Utility Authority

BALANCE SHEET

ASSETS

	<u>March 31, 2004</u>	<u>March 31, 2003</u>
CURRENT ASSETS		
Cash Checking	\$ 198,437.68	\$ 137,025.98
CD J Fund	214,157.39	212,220.05
Savings Signature Bank	4,557.37	3,511.02
Accounts Receivable	67,207.82	61,951.48
Prepaid Insurance	<u>2,593.33</u>	<u>2,491.36</u>
Total Current Assets	<u>486,953.59</u>	<u>417,199.89</u>
PROPERTY AND EQUIPMENT		
Water System	\$ 3,721,823.83	\$ 3,721,823.83
Water Tower	295,482.18	295,482.18
Meters	63,705.25	63,705.25
Office Equipment	10,050.00	10,050.00
Less - Accumulated Depreciation	<u>(1,037,167.00)</u>	<u>(929,807.00)</u>
Net Property and Equipment	<u>3,053,894.26</u>	<u>3,161,254.26</u>
OTHER ASSETS		
CD Signature	88,007.98	84,352.34
Unamortized Bond Issue Costs	<u>25,803.97</u>	<u>26,664.10</u>
Total Other Assets	<u>113,811.95</u>	<u>111,016.44</u>
TOTAL ASSETS	<u>\$ 3,654,659.80</u>	<u>\$ 3,689,470.59</u>

The accompanying notes are an integral part of the financial statements.

Port Hope-Gore-Rubicon Utility Authority

BALANCE SHEET

LIABILITIES AND FUND EQUITY

	<u>March 31, 2004</u>	<u>March 31, 2003</u>
CURRENT LIABILITIES		
Current Portion of Revenue Bonds Payable	16,000.00	15,000.00
Accounts Payable	20,206.57	8,226.23
Federal Withheld	743.01	1,133.15
Fica and Medicare Withheld	519.74	522.50
State Withheld	<u>139.28</u>	<u>215.00</u>
Total Current Liabilities	<u>37,608.60</u>	<u>25,096.88</u>
LONG-TERM LIABILITIES		
Revenue Bonds Payable	1,179,000.00	1,194,000.00
Less - Current Portion of Revenue Bonds	<u>(16,000.00)</u>	<u>(15,000.00)</u>
Total Long-Term Liabilities	<u>1,163,000.00</u>	<u>1,179,000.00</u>
Total Liabilities	<u>1,200,608.60</u>	<u>1,204,096.88</u>
FUND EQUITY		
Contributed Capital Users	101,132.18	101,132.18
Contributed Capital Federal	2,149,920.88	2,224,064.88
Retained Earnings	<u>202,998.14</u>	<u>160,176.65</u>
Total Fund Equity	<u>2,454,051.20</u>	<u>2,485,373.71</u>
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 3,654,659.80</u>	<u>\$ 3,689,470.59</u>

The accompanying notes are an integral part of the financial statements.

Port Hope-Gore-Rubicon Utility Authority

STATEMENT OF REVENUES AND EXPENSES AND CHANGES IN RETAINED EARNINGS

For the Years Ended
March 31, 2004 March 31, 2003

REVENUES		
Charges for Services	\$ 247,124.35	\$ 199,239.01
Hook-Up Fees Income	17,000.00	8,005.34
Other Revenue	<u>0.00</u>	<u>94,262.38</u>
Total Revenues	\$ 264,124.35	\$ 301,506.73
OPERATING EXPENSES		
Bank Service Charge	37.00	0.00
Contractual Services	6,417.00	9,196.68
Depreciation Expense	107,360.00	107,521.00
Dues and Membership	859.99	1,258.75
Insurance	8,021.03	7,181.32
Legal and Professional	6,215.46	3,395.20
Miscellaneous	5.00	181.28
Office Supplies and Postage	1,346.97	851.09
Payroll Taxes	1,338.70	1,117.48
Printing	590.34	595.00
Rent Office and Meters	0.00	3,800.00
Repairs and Maintenance	4,260.81	6,785.28
Sewer Collections	56,798.98	0.00
Supplies	4,325.46	904.56
Travel and Conference	476.60	880.75
Utilities	273.72	233.06
Wages	13,282.76	12,175.00
Water Purchased	<u>27,984.13</u>	<u>38,210.66</u>
Total Operating Expenses	<u>239,593.95</u>	<u>194,287.11</u>
OPERATING INCOME (LOSS)	<u>24,530.40</u>	<u>107,219.62</u>
OTHER INCOME (EXPENSE)		
Interest Income	7,692.12	8,937.75
Amortization of Bond Cost	(860.13)	(859.85)
Interest Expense	<u>(62,684.90)</u>	<u>(63,721.82)</u>
Total Other Income (Expense)	<u>55,852.91</u>	<u>55,643.92</u>
NET INCOME (LOSS)	(31,322.51)	51,575.70
Add Depr on Fixed Assets Acquired With Grant Funds Which Reduce Contributed Capital	<u>74,144.00</u>	<u>74,144.00</u>
INCREASE (DECREASE) IN RETAINED EARNING	42,821.49	125,719.70
RETAINED EARNINGS BEGINNING OF YEAR	<u>160,176.65</u>	<u>34,456.95</u>
RETAINED EARNINGS END OF YEAR	<u>\$ 202,998.14</u>	<u>\$ 160,176.65</u>

The accompanying notes are an integral part of the financial statements.

Port Hope-Gore-Rubicon Utility Authority

STATEMENT OF CASH FLOWS

For the Years Ended
March 31, 2004 March 31, 2003

CASH FLOWS FROM OPERATING ACTIVITIES

Net Income (Loss)	\$ (31,322.51)	\$ 51,575.70
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Adjustments to reconcile Net Income
(Loss) to net Cash provided by
(used in) operating activities
Depreciation and Amortization

	108,220.13	108,380.85
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Decrease (Increase) in Operating Assets

Accounts Receivable
Other

	(5,256.34)	(16,900.69)
	(101.97)	(646.68)

Increase (Decrease) in Operating Liabilities

Accounts Payable
Accrued Liabilities

	11,980.34	4,615.97
	(468.62)	(832.20)

Total Adjustments

	<u>114,373.54</u>	<u>94,617.25</u>
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Net Cash Provided By (Used in)
Operating Activities

	83,051.03	146,192.95
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CASH FLOWS FROM INVESTING ACTIVITIES

Net Cash Provided By (Used In)
Investing Activities

	0.00	0.00
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CASH FLOWS FROM FINANCING ACTIVITIES

Revenue Bond Repayments

	<u>(15,000.00)</u>	<u>(14,000.00)</u>
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Net Cash Provided By (Used In)
Financing Activities

	<u>(15,000.00)</u>	<u>(14,000.00)</u>
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NET INCREASE (DECREASE) IN CASH
AND CASH EQUIVALENTS

	68,051.03	132,192.95
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CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD

	<u>437,109.39</u>	<u>304,916.44</u>
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CASH AND CASH EQUIVALENTS AT END OF PERIOD

	<u>\$ 505,160.42</u>	<u>\$ 437,109.39</u>
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The accompanying notes are an integral part of the financial statements.

Port Hope-Gore-Rubicon Utility Authority
Notes to the Financial Statements
March 31, 2004 and March 31, 2003

Note 1 - Summary of Significant Accounting Policies

A. Description of Operations

The Authority was created in 1990 under Public Act 233 of 1955 and began operations in August 1994. Its Purpose is to provide a water supply system for the residents and property owners of the constituent units, which include the Village of Port Hope and Townships of Gore and Rubicon. The Authority is governed by a nine-person Board appointed by the constituent municipalities each serving a term of three years.

B. Reporting Entity

In accordance with the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 14, the definition of the reporting entity is based primarily on the premise of financial accountability. The Authority is a primary government and is financially accountable for the organizations that make up its legal entity. It is also financially accountable for legally separate organizations if it appoints a voting majority of an organization's governing body and either it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the primary government. A primary government may also be financially accountable for governmental organizations that are fiscally dependent on it. These types of organizations are deemed component units.

Based on the provisions of GASB 14, there are no organizations that are deemed to be component units of the Authority.

C. Basis of Presentation

The financial activities of the Authority are recorded in an enterprise fund. Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where the costs (expenses, including depreciation) of providing services to the public on a continuing basis are financed through user charges.

D. Basis of Accounting

Basis of accounting refers to the timing of when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied. The accrual basis of accounting is followed for the enterprise fund. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Port Hope-Gore-Rubicon Utility Authority
Notes to the Financial Statements
March 31, 2004 and March 31, 2003

E. Accounting Estimates

The process of preparing financial statements is conformity with generally accepted accounting principles required the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

F. Property, Plant and Equipment

Property, plant and equipment are recorded at cost. Depreciation is computed using the modified accelerated cost recovery system over the estimated useful lives of the respective class of assets at follows:

Water System and Tower	40 years
Meters	10 years
Office Equipment	5-7 years

G. Restricted Assets

Resources set aside for future debt service payments are recorded as "restricted cash" on the balance sheet.

H. Bond Issue Costs

Bond issue costs are deferred and amortized over the term of the bond using the straight-line method.

Note 2 - Cash

As of March 31, 2004 and March 31, 2003, the carrying amount and the bank balance of the Authority's accounts amounted to \$417,152.44 and \$352,757.05 of which \$204,557.37 and \$203,511.02 was covered by federal depository insurance.

Port Hope-Gore-Rubicon Utility Authority
Notes to the Financial Statements
March 31, 2004 and March 31, 2003

Note 3 - Long-Term Debt

The following is a summary of changes in long-term debt for the year ended March 31, 2004.

	<u>Balance</u> <u>4/01/03</u>	<u>Additions</u> <u>(Retirements)</u>	<u>Balance</u> <u>3/31/04</u>
\$1,272,000 1993 Water Supply System Revenue Bonds, due in annual installments of \$11,000 to \$81,000 plus interest semi-annually at a rate of 5.25% through March 1, 2033	<u>1,194,000</u>	<u>15,000</u>	<u>1,179,000</u>

The annual principal and interest requirements are as follows as of March 31:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	16,000	61,898	77,898
2006	17,000	61,058	78,058
2007	18,000	60,165	78,165
2008	19,000	59,220	78,220
Thereafter	<u>1,109,000</u>	<u>923,953</u>	<u>2,032,953</u>
	1,179,000	1,166,294	2,345,294

The bond ordinance requires the Authority to establish cash reserves to fund future bond principal and interest payments. Contribution requirements vary in amount until a reserve of \$82,000 has been accumulated. As of March 31, 2004 the Authority has accumulated this amount.

Note 4 - Contributed Capital

Changes in contributed capital for the year ended March 31, 2004 are as follows:

Contributed Capital - Beginning of Year	\$2,325,197.06
Less Depreciation Attributed to Contributed Capital	\$ <u>(74,144.00)</u>
Contributed Capital - End of Year	\$2,251,053.06

Port Hope-Gore-Rubicon Utility Authority
Notes to the Financial Statements
March 31, 2004 and March 31, 2003

Note 5 - Risk Management

The Authority is exposed to various risks of loss related to property loss, torts, errors, omissions, employee injuries and natural disasters. The Authority participates in the Michigan Municipal Liability and Property Pool for claims related to property loss, general liability, errors and omissions and auto liability. The authority also participates in the Michigan Municipal Worker's Compensation Fund for claims related to workers compensation. The Pool operates as a common risk-sharing management program for governmental units in Michigan. Member premiums are used to purchase insurance coverage and to pay member claims in excess of deductible amounts.

Note 6 - Pension

No pension is provided for employees.

Note 7 - New Reporting Standard

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement 34 "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments." This Statement establishes new financial reporting requirements for state and local governments throughout the United States. When implemented, it will require new information and restructure much of the information that governments have presented in the past. Comparability with reports issued in all prior years will be affected. The authority is required to implement this standard for the fiscal year beginning after June 15, 2003. The authority has not yet determined the full impact that adoption of GASB statement 34 will have on the financial statements.

George Zahul, CPA, PC

101 N Port Crescent St
Bad Axe, MI 48413

July 29, 2004

To the Board
Port Hope-Gore-Rubicon Utility Authority
Port Hope, MI 48468

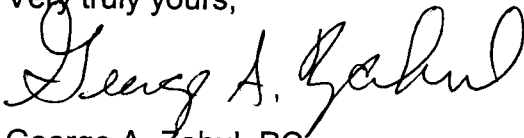
The following comments related to situations that came to my attention during the course of my recent examination of the Port Hope-Gore-Rubicon Utility Authority's financial statements as of and for the year ended March 31, 2004, and are submitted for your evaluation and consideration. I would like to emphasize that, since my examination was conducted for the purpose of expressing an opinion on the previously referred to financial statements, these comments are not necessarily all inclusive.

1. No situations came to my attention during the course of the audit.

If you would need assistance in implementing the above, I would be happy to assist you.

I want to take this opportunity to thank the Board for selecting me to do your audit, and I want to thank the Village Officials for their help and assistance during the audit.

Very truly yours,



George A. Zahul, PC
Certified Public Accountant